REPORT OF THE AUDIT OF THE KNOX COUNTY SHERIFF

For The Year Ended December 31, 2008

CRIT LUALLEN
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE
KNOX COUNTY SHERIFF

For The Year Ended
December 31, 2008

The Auditor of Public Accounts has completed the Knox County Sheriff's audit for the year ended December 31, 2008. Based upon the audit work performed, the financial statement presents fairly, in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

Financial Condition:

Excess fees decreased by $336,906 from the prior year, resulting in excess fees of $186,834 as of December 31, 2008. Revenues increased by $226,814 from the prior year and expenditures increased by $563,720. The Knox County Fiscal Court voted to change the Sheriff's office from a fee-pooling office to a fee office effective January 1, 2008. As a result, the Sheriff is responsible for paying operating disbursements out of his office rather than his receipts being transferred to the county monthly and the county paying his operating disbursements.

Report Comment:

- The Sheriff's Office Lacks Adequate Segregation Of Duties

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable J.M. Hall, Knox County Judge/Executive
The Honorable John D. Pickard, Knox County Sheriff
Members of the Knox County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the Sheriff of Knox County, Kentucky, for the year ended December 31, 2008. This financial statement is the responsibility of the Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the Sheriff for the year ended December 31, 2008, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated August 6, 2009 on our consideration of the Knox County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

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The Honorable J.M. Hall, Knox County Judge/Executive
The Honorable John D. Pickard, Knox County Sheriff
Members of the Knox County Fiscal Court

Based on the results of our audit, we have presented the accompanying comment and recommendation included herein, which discusses the following report comment:

- The Sheriff's Office Lacks Adequate Segregation Of Duties

This report is intended solely for the information and use of the Sheriff and Fiscal Court of Knox County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these interested parties.

Respectfully submitted,

Crit Luallen
Auditor of Public Accounts

August 6, 2009

KNOX COUNTY
JOHN D. PICKARD, SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2008

Revenues		
State - Kentucky Law Enforcement Foundation Program Fund		$ 25,024
State Fees For Services:		
Finance and Administration Cabinet	$ 33,174	
Telecom Tax Distribution	5,743	38,917
Circuit Court Clerk:		
Fines and Fees Collected	1,311	
Court Ordered Payments	265	1,576
Fiscal Court		100,500
County Clerk - Delinquent Taxes		7,512
Commission On Taxes Collected		470,429
Fees Collected For Services:		
Auto Inspections	19,400	
Accident and Police Reports	896	
Serving Papers	93,638	
Carrying Concealed Deadly Weapon Permits	3,385	
Mental Transports	4,360	
Pictures/CD's	655	
DNA Security	480	122,814
Other:		
Tax Penalty Fees	60,824	
Sheriff's Fees & Advertising Cost	6,590	
Refunds	209	67,623
Interest Earned		1,788
Total Revenues		836,183

The accompanying notes are an integral part of this financial statement.

KNOX COUNTY
JOHN D. PICKARD, SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES – REGULATORY BASIS
For The Year Ended December 31, 2008
(Continued)

Expenditures		
Operating Expenditures and Capital Outlay:		
Personnel Services-		
Deputies' Salaries	$ 283,085	
Employee Benefits-		
Employer's Share Social Security	28,190	
Employer's Share Retirement	55,255	
Workers Compensation/Unemployment	1,464	
Employer Paid Health Insurance	26,100	
Training Fringe Benefit (HB 810)	22,581	$ 416,675
Contracted Services-		
Advertising	9,647	
Vehicle Maintenance and Repairs	12,338	
Auditing Expense	9,054	
County Settlement Expense	4,126	35,165
Materials and Supplies-		
Office Materials and Supplies	12,940	
Supplies	4,408	
Uniforms	5,009	22,357
Auto Expense-		
Gasoline		55,197
Other Charges-		
Telephone	8,701	
Dues	592	
Postage	10,409	
Bond	2,995	
Feed the Jury	69	
Training & Miscellaneous	4,658	27,424
Capital Outlay-		
Office Equipment		4,411
Total Expenditures		561,229

KNOX COUNTY
JOHN D. PICKARD, SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES – REGULATORY BASIS
For The Year Ended December 31, 2008
(Continued)

Net Revenues	$ 274,954
Less: Statutory Maximum	84,595
Excess Fees	190,359
Less: Training Incentive Benefit	3,525
Excess Fees Due County for 2008	186,834
Payment to Fiscal Court - January 6, 2009	186,834
Balance Due Fiscal Court at Completion of Audit	$ 0

KNOX COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2008

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the Sheriff as determined by the audit. KRS 134.310 requires the Sheriff to settle excess fees with the fiscal court at the time he files his final settlement with the fiscal court.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2008 services
- Reimbursements for 2008 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2008

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 1. Summary of Significant Accounting Policies Continued:

D. Fee Office

The Knox County Fiscal Court approved the Sheriff's Office to become a fee office effective January 1, 2008. As a fee office, the Sheriff is responsible for operating expenditures and pays excess fees to the Fiscal Court at year-end.

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer, defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 16.17 percent for the first six months and 13.50 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The Knox County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. Although the Sheriff obtained sufficient collateral, and had entered into a written agreement with the depository institution to secure the Sheriff's interest in the collateral interest, that had been approved by the depository institution's board of directors or loan committee, such approval was not reflected within the minutes of the board of directors of the depository institution or loan committee.

Note 3. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Knox County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2008, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 4. Drug Confiscation, Donations, and Grants Account

The Sheriff maintains an account for funds released to his office by court order, donations, and grants. On January 1, 2008, this account had a balance of $5,915. These funds are to be expended for law enforcement purposes in accordance with the court orders, donor requirements, and grant requirements. During 2008, deposits in this account were $11,595 of forfeited funds, $47 interest, $3,500 from donations, and $3,443 from a Grant. The Sheriff expended $16,461 during 2008, leaving a balance of $8,039 as of December 31, 2008.

Note 5. Substance Abuse Prevention Grant

The Knox County Sheriff's office was awarded a grant of $3,443 from the Kentucky Agency for Substance Abuse Prevention, Bell-Knox-Whitley Local Board, for the specific purpose of purchasing Alcohol Sensor FST PBT's. Grant proceeds received were expended for the intended purpose, and the Sheriff's office has complied with reporting requirements of the grant agreement.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable J.M. Hall, Knox County Judge/Executive
The Honorable John D. Pickard, Knox County Sheriff
Members of the Knox County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Knox County Sheriff for the year ended December 31, 2008, and have issued our report thereon dated August 6, 2009. The Sheriff's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Knox County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the regulatory basis of accounting which is a basis of accounting other than generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency described in the accompanying comment and recommendation to be a significant deficiency in internal control over financial reporting.

- The Sheriff's Office Lacks Adequate Segregation Of Duties

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Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we do not believe the significant deficiency described above is a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Knox County Sheriff's financial statement for the year ended December 31, 2008, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comment and recommendation.

This report is intended solely for the information and use of management, the Knox County Fiscal Court, and the Kentucky Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

Crit Luallen
Auditor of Public Accounts

August 6, 2009

COMMENT AND RECOMMENDATION

KNOX COUNTY
JOHN D. PICKARD, SHERIFF
COMMENT AND RECOMMENDATION
For The Year Ended December 31, 2008

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY:

The Sheriff's Office Lacks Adequate Segregation Of Duties

During our review of internal controls, we noted the following:

- One employee was responsible for taking payments, preparing daily checkout sheets, maintaining receipts and disbursements ledger, and preparing bank deposits
- The employee responsible for reconciling daily receipts to daily checkout sheets also had access to accounting records and daily deposits.
- The employee responsible for making daily deposits also received cash and maintained daily checkout sheets.
- The employee responsible for opening mail and listing mail receipts also had access to cash receipts and accounts receivable records.
- The employee authorized to sign checks was not independent of recording transactions, check preparation, receiving cash or purchasing and receiving.
- The employee with custody of checks after the sheriff signed them and before they were mailed was also responsible for disbursing cash, receiving cash, preparing daily bank deposits, and preparing daily checkout sheets.

A segregation of duties over accounting functions such as receiving cash, recording cash, preparing bank deposits, writing checks, posting transactions to the journals, reconciling bank records to the journals and preparing reports or implementation of compensating controls, when needed because the number of office staff is limited, is essential for providing protection from asset misappropriation and/or inaccurate financial reporting including reporting to external agencies such as state, county, and other taxing districts. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

To adequately protect against misappropriation of assets and/or inaccurate financial reporting, the Sheriff should separate the duties involved in receiving cash, recording cash, preparing and making bank deposits, writing checks, posting transactions to the journals, reconciling bank records to the journals and preparing of reports. If these duties cannot be separated, strong oversight over those areas should be provided to the employee or employees responsible for these duties. If the Sheriff does implement oversight instead of segregation of duties, this should be documented on the appropriate source document.

The following are examples of controls the Sheriff could implement.

- The Sheriff could periodically recount and deposit cash receipts. This could be documented by initialing the daily checkout sheet and deposit ticket.
- The Sheriff could periodically compare the bank deposit to the daily checkout sheet. This could be documented by initialing the bank deposit and daily checkout sheet.
- The Sheriff could review the bank reconciliation and compare the balance to the balance in the checkbook. Any differences should be reconciled. This could be documented by initialing the bank reconciliation and the balance in the checkbook.
- The Sheriff could receive the bank statements unopened, and review the statements for any unusual items prior to giving them to the person responsible for reconciliations.

Sheriff's Response: Small office, working on.